Economic Trends

Economy gears down

Labour and housing conditions have softened over the first half of 2015. Lower energy prices continue to weigh on the value of exports and shipments, with weakness extending to non-energy sectors. Despite weakening economic conditions, the province continued to attract people in the first quarter of 2015, but at a slower pace. This month's inFocus looks at the role of interprovincial employees in Alberta's economy.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	May	2,308	+1.7%
Unemployment Rate	May	5.8%	+1.1 p.p.
CPI Inflation (unadjusted)	May	0.6%	-1.9 p.p.
Retail Sales	April	$6.3 B	-2.2%
Housing Starts (annualized)	May	34,107	+0.7%
Rigs Drilling (unadjusted)	June	73	-51.3%
Manufacturing Shipments	April	$5.7 B	-12.4%
Exports (unadjusted)	April	$7.5 B	-26.8%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Alberta Household Sector

Alberta continues to draw people

Alberta's population grew 2.2% year-over-year (y/y) in the first quarter of 2015 to 4,175,409. This was the slowest growth since the first quarter in 2012, but still led the provinces. Alberta continued to attract people from other provinces and internationally (Chart 1). Over the first three months of 2015, Alberta gained 7,723 net migrants. Strong interprovincial migration (+6,732) and immigration (+8,187) helped offset a loss of 5,896 non-permanent residents (NPRs), the second straight quarter loss. Federal government changes to the Temporary Foreign Workers (TFW) program contributed to outflows of NPRs.

Housing market softens

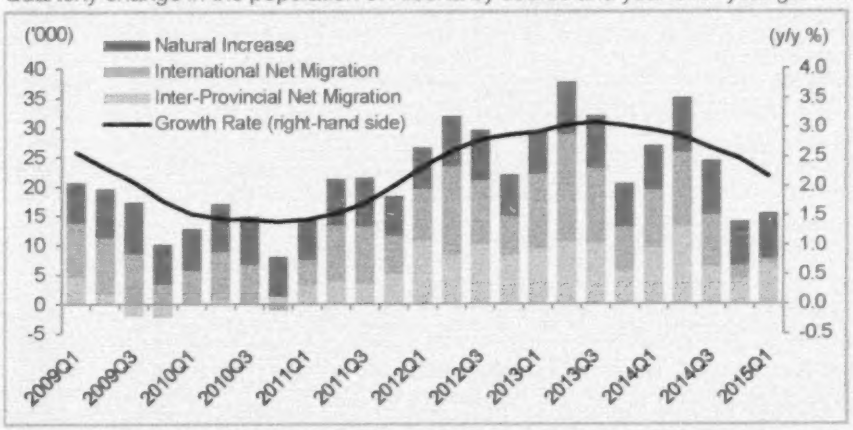
The housing market in the province continues to show signs of slowing. Housing starts, which averaged 46,000 (annualized) in the first quarter of 2015, declined to a more modest 33,000 (annualized) over April and May. After sharp declines early in the year, the resale market appears to have stabilized, with sales picking up in recent months. Listings have declined, however, and activity remains significantly weaker compared with last year. In the rental market, vacancy rates in Alberta nearly doubled to 3.3% in April from a near-record low last year, although the average monthly rental rates increased 4.5% y/y to $1,138.

Job creation pauses

Alberta's labour market remains weak. The job gains so far this year have been concentrated in part-time, service sector positions. Employment is essentially flat compared with December. A separate survey on payroll employees shows a larger slowdown, with payroll employment down by almost 30,000 positions between December and April. The unemployment rate, at 5.8% in May, is sitting 1.1 percentage points higher compared with December. Earnings have also leveled off and growth softened to around 1.6% y/y in April, compared with almost 4.0% growth in 2014.

Chart 1: Net inflows continue, but at a slower rate

Quarterly change in the population of Alberta by source and year-over-year growth



Sources: Statistics Canada

Energy prices weigh on inflation
Inflation in the province has been muted, as consumer prices in May rose only 0.6% y/y. Prices for natural gas and electricity continued to trend down, pulling down growth in shelter costs and overall inflation. Although gasoline prices have risen 26% since January, they remained almost 20% lower than last year in May. Excluding energy, inflation was an elevated 2.5%, as food continued to put upward pressure on prices. Year-to-date, inflation is also sitting at 0.6%.

Alberta Business Sector

Export declines extend beyond oil and gas industry
The effect of low oil prices on business activity is starting flow into other energy-related sectors. Growth in Alberta's overall exports has been negative year-over-year since January, as lower oil prices dragged down the value of Alberta's energy exports. Following positive growth in the first quarter, however, non-energy exports declined in April by 6.3% (Chart 2). There was also broad-based weakness in Alberta manufacturing shipments, which were down 12% y/y in April. Though most of the decline was from lower petroleum product prices, sales of most other manufactured goods also fell year over year, led by machinery and equipment. A notable exception was food manufacturing, which continued to post strong year-over-year growth.

Differential narrows to 6-year low
While WTI, the North American benchmark light oil price, has traded in a tight range near US$60/bbl since early May, the price of Canadian heavy crude (WCS) has increased. As a result, the differential fell below US$8/bbl at the end of May and hovered around this level for most of June. This was the tightest differential since early 2009. WCS prices strengthened on strong demand for heavy crude and increased pipeline access, as pipeline operators have found ways to increase heavy crude throughput. Prices were also supported by wildfires in Northern Alberta, which caused some oilsands operations to shut down and reduce supply temporarily. The narrower differential has reduced the incentive to ship crude by rail, with cars loaded in Western Canada falling in April to the lowest level since October 2013.

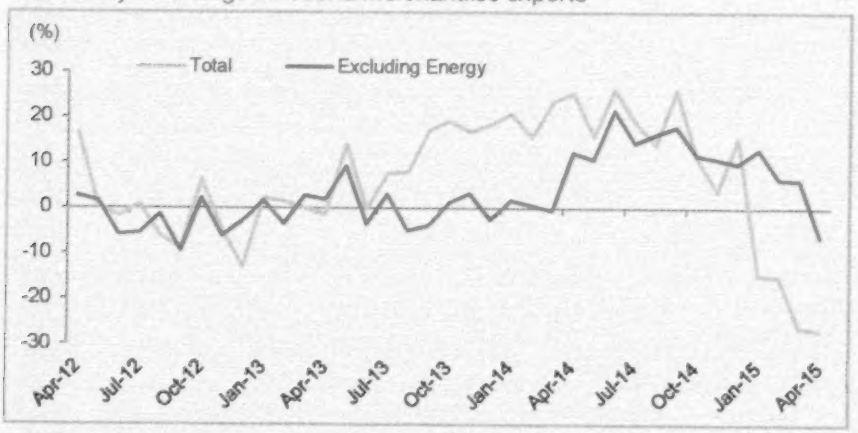
Livestock driving agriculture gains
The agriculture sector in Alberta has been a bright spot in the economy, benefiting from higher prices, especially livestock. Farm cash receipts increased again in the first quarter of 2015, rising 7.4% y/y to $3.5 billion. Livestock was the main driver, with revenues up 22% y/y, as cattle and calf prices spiked. Crop receipts, however, slowed from 2014 on lower volumes after 2013's bumper crop. Recent dry weather across the prairies remains a risk for this year's crop.

Outside Alberta

US business activity wanes
Although the outlook for the US economy looks positive for 2015, American industry and manufacturing have been hamstrung by low oil prices and a strong US dollar. Industrial production has been waning over the past six months, and shrank by 2% during May. Mining activity has been especially weak, as the number of rigs fell from 1683 in January down to 861 by June. Capital spending has been pummeled because of a sharp decline in energy investment in early 2015. In the manufacturing sector, new orders declined by 0.7% (m/m) in April and have contracted in nine of the past twelve months.

Eurozone improvement tenuous
With the help of monetary stimulus, the Eurozone economy is showing signs of improving. Prices have stopped falling, ending four months of deflation. Eurozone GDP growth ticked up to 1.5% (annualized) in the first quarter of 2015 after increasing by a mere 0.9% last year. Government consumption rose following years of austerity. Easing credit conditions have also benefited investment, which accelerated to 3.1% (annualized) growth in the first quarter. An impasse on negotiations over Greece's bailout and the possibility of Greece's exit from the Euro, however, puts Eurozone's fragile economic recovery at risk.

Chart 2: Non-energy exports have also started to fall
Year-over-year change in Alberta merchandise exports



Source: Statistics Canada

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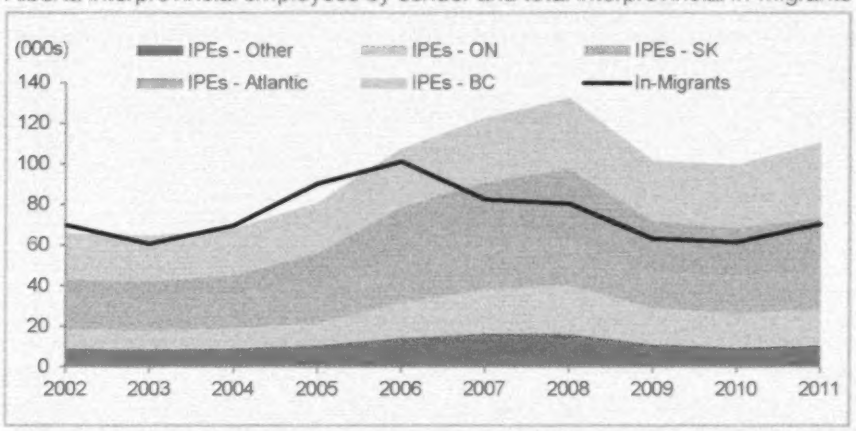
inFocus

A Profile of Interprovincial Employees in Alberta

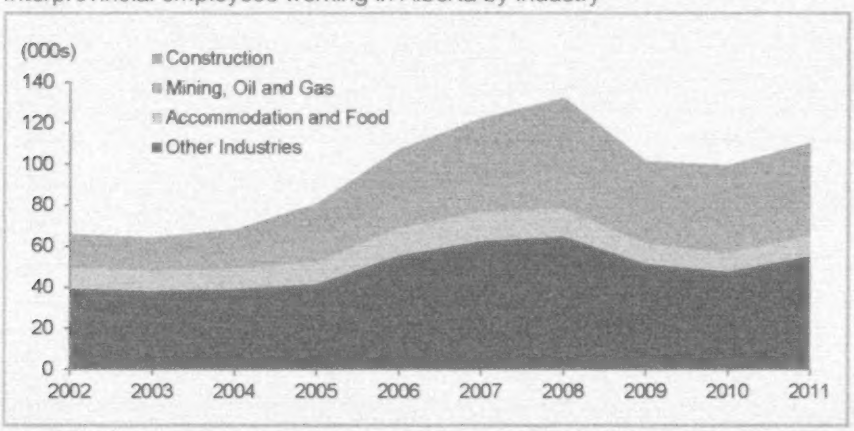
Throughout much of the 2000s, Alberta's exceptional job growth and high wages drew thousands of people from across the country to work in the province. While many of these individuals arrived in Alberta as new residents, many others came as interprovincial employees (IPEs), i.e., those who found employment in Alberta but maintained their primary residence in another part of the country. According to data recently released by Statistics Canada, the number of IPEs in Alberta surged from almost 66,000 in 2002 to 111,000 in 2011 (the latest year available). Using a new and comprehensive data set from Statistics Canada, this inFocus highlights the general profile of IPEs employed in Alberta, and how it evolved over time.

Chart 1: Strong job growth and high earnings drew thousands to Alberta
Alberta interprovincial employees by sender and total interprovincial in-migrants



Source: Statistics Canada, Alberta Treasury Board and Finance

Chart 2: Majority of new IPEs worked in construction, energy sector
Interprovincial employees working in Alberta by industry



Source: Statistics Canada, Alberta Treasury Board and Finance

Alberta IPEs based throughout Canada

From 2002 to 2011, IPEs were a valuable source of labour supply that helped support Alberta's fast-growing economy. Alberta received considerably more IPEs than incoming interprovincial migrants from 2007 to 2011. These IPEs came from all across the country, especially from British Columbia, Atlantic Canada, Ontario and Saskatchewan. The number of IPEs employed in Alberta more than doubled between 2002 and 2008, before declining moderately in 2011 (Chart 1). Despite the global economic downturn in 2008-09, Alberta drew 101,513 IPEs in 2009, which was still 54% higher than 2002 levels.

Demand from oil and gas

In 2002, IPEs in Alberta worked in a number of industries, with accommodations and food services having the largest share; however, as oil and gas investments substantially increased in Alberta, the number of IPEs working in the construction and energy sectors surged (Chart 2). In 2002, the construction and the energy sectors accounted for about one-quarter of IPEs; but by 2008, this share grew to about 40% and maintained this level through to 2011.

Male IPEs primarily in goods sector; females in service sector

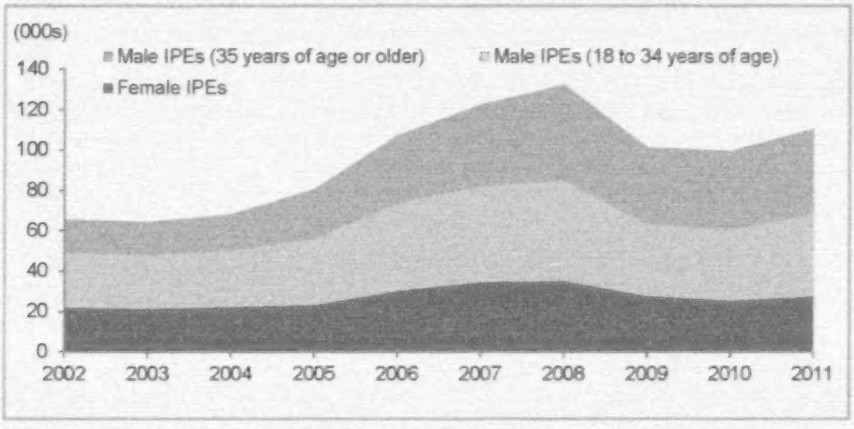
Alongside the increase in oil and gas and construction activity in the province between 2002 and 2011, there was a shift in the profile for IPEs. By 2011, close to 40% of all IPEs were male employees working in either the construction or energy sectors. In contrast, just over 20% of IPEs were

females employed in the service-producing sector. Accommodation and food services and wholesale/retail trade accounted for the largest shares of female IPEs. Female IPEs working in Alberta were slightly more likely to work in more than one industry than male IPEs, but this occurrence decreased over time: in 2007, roughly 1 in 5 female IPEs worked in two or more industries over the course of the year, compared with approximately 1 in 8 during 2011.

Shift in IPE profile towards older males

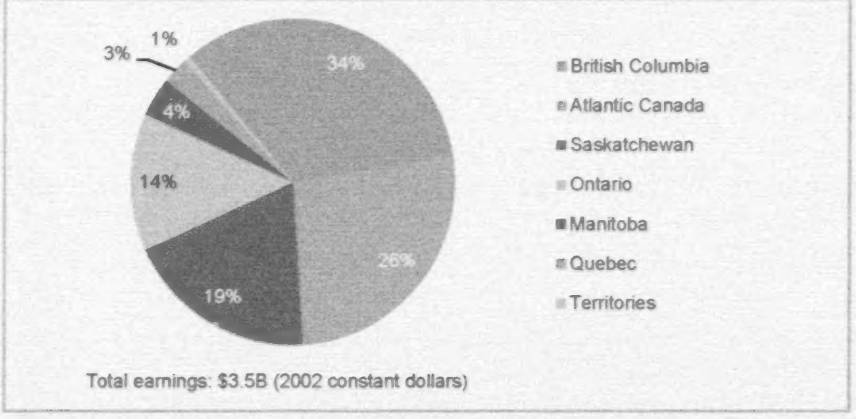
The age and sex profile of IPEs employed in Alberta also changed between 2002 and 2011. The share of older males (35 years of age or older) grew from approximately one-quarter to 38%, whereas the share of females declined from over 30% to 25% (Chart 3). The share of younger males also declined, dropping from over 40% to 37%, but still constituted a major portion of IPEs. According to Statistics Canada, this trend was largely not a result of IPEs simply getting older (in other words, the same workers who just moved up an age bracket) as the agency found that only a minority of IPEs received by Alberta worked as IPEs for more than a few years (see "*Inter-provincial Employees in Alberta*", Statistics Canada, 2013).

Chart 3: Older males accounted for a larger share of IPEs by 2011
Interprovincial employees working in Alberta by sex and age group



Source: Statistics Canada, Alberta Treasury Board and Finance

Chart 4: IPEs from BC and Atlantic Canada received over half of earnings
Share of labour income earned by IPEs working in Alberta by home region (2011)



Source: Statistics Canada, Alberta Treasury Board and Finance

Strong growth in income earned in construction, oil and gas extraction

As the number of IPEs received by Alberta grew, the total amount of labour income earned by IPEs grew from $1.0 billion in 2002 to $3.5 billion in 2011 (in 2002 constant dollars). Construction (31%) and the energy sector (23%) accounted for the largest share in 2011; these two industries experienced strong growth in earnings during the same period. By region, IPEs originating from British Columbia accounted for the largest share of real labour income in 2011 (34%), followed by Atlantic Canada (26%) (Chart 4). Overall, from 2002 to 2011, IPEs received by Alberta earned $22.5 billion in labour income (in 2002 constant dollars).

Alberta also a source of IPEs for other regions

While a net receiver of IPEs by a substantial margin, Alberta sent out thousands of IPEs to other regions. Between 2002 and 2011, the number of IPEs increased from 45,219 to 54,065. The top destinations were Saskatchewan (34% of AB-based IPEs in 2011), Ontario (31%) and British Columbia (27%). The amount of real labour income earned by Albertan IPEs across Canada grew steadily from less than a billion in 2002 to $1.5 billion by 2010.

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